## Highlights

| | | | |
|---|---|---|---|
| **Net Sales** | **$ 623,236** | $ 672,514 | $ 677,216 |
| **Income (Loss) from Continuing Operations** | **$ 12,182** | $ (28,236) | $ 10,323 |
| **Income (Loss) from Discontinued Segments** | **5,303** | 54,296 | (243,799 |
| **Extraordinary Credits** | **38,744** | — | — |
| **Net Income (Loss)** | **$ 56,229** | $ 26,060 | $(233,476 |
| **Earnings per Common Share** | | | |
| Primary | | | |
| Continuing | **$ .64** | $ (2.24) | $ .50 |
| Discontinued | **.37** | 3.86 | (18.07 |
| Extraordinary | **2.70** | — | — |
| Net Income (Loss) | **$ 3.71** | $ 1.62 | $ (17.57 |
| Fully Diluted | | | |
| Continuing | **$ .70** | $ (1.57) | * |
| Discontinued | **.30** | 3.07 | * |
| Extraordinary | **2.17** | — | — |
| Net Income | **$ 3.17** | $ 1.50 | * |
| **Cash Dividends per Share** | | | |
| Preferred | **$ 1.20** | $ 1.20 | $ 1.20 |
| Common | **$ .50** | $ .80 | $ .77 |

*Figure omitted—not dilutive.

### Shareholders Information

**The 1983 Annual Meeting of Shareholders will be held at 10:00 a.m., Thursday, April 28, at the Radisson Plaza Charlotte Hotel, Two NCNB Plaza, Charlotte, North Carolina.**

Stock Transfer Agent and Registrar:
Citibank, N.A.
111 Wall Street
Sort 3195
New York, NY 10043
(212) 558-7887

GAF offers holders of its common and preferred stock the opportunity to buy additional shares through an automatic dividend reinvestment service administered by Citibank, N.A. For further details contact:
Citibank, N.A.
111 Wall Street
Sort 3197
New York, NY 10043
(212) 558-7619

A copy of the company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission may be obtained, free of charge by writing to:
GAF Corporation
140 West 51 Street
New York, NY 10020
Investor Relations

### Contents

# Message

Dr. Jesse Werner

Sales of GAF's chemicals and building r
in 19^2 were $623.2 million compared w
sales of $672.5 million. Direct operating
however, rose from $18 million to $23.8
primarily from generally lower raw mater
costs, more favorable pricing and a dram
upturn in building materials sales in the
half of the year.

Net income was $56.2 million or $3.71 a
primary compared with $26.1 million or
share in 1981. Net income in 1982 was f
affected by an extraordinary credit of $3
representing the residual assets in the S
Employees Retirement Plan which was
nated December 31 in favor of an impro
retirement benefits program, and by the
ment of GAF's antitrust lawsuit against E
Kodak Company. Net income also inclu
million from the sale of tax benefits purs
the Economic Recovery Tax Act of 1981

Settlement of our lawsuit against Eastm
Kodak in April had a benefit of $16.6 mill
including a $9.5 million cash payment a
missal of an Eastman Kodak patent suit
the company, permitting the reversal of
serve of approximately $7.1 million.

Excess funds from the terminated retire
plan were the result of profitable investm
over the years by the fund's managers a
successful conclusion in January 1982
restructuring program which reduced sa
employment about 60 percent. Most of t
money in the former plan was used to pu
an annuity contract that guarantees par
and beneficiaries their accumulated ben
This is discussed in other sections of thi

Losses in building materials were lower
than in 1981. Sales suffered as the cons
industry endured its worst recession in 3
but the effect on profits was partially offs
lower costs for asphalt, lower carrying c
reduced inventories and a June price in
for residential roofing. When interest an
gage rates began to decline at mid-year
downward trend in roofing demand was
and we were able to resume production
number of plants that had been tempora
down for lack of demand. The onset of e
recovery became clear later in 1982, an
along with the entire building materials i

surgence in sales and profits. With lower interest and mortgage rates, and projected housing starts of 1.4 to 1.5 million in 1983 as compared with 1,060,600 in 1982, there should be significant improvement. The release of pent-up demand in the re-roofing market, our strongest contributor to sales, is becoming evident.

The economic conditions which depressed building materials sales had less effect on our chemicals business in 1982, and we maintained high profitability. Domestic sales were down somewhat primarily because of fourth-quarter inventory reductions by some of our major specialty chemicals customers. Export sales remained strong, but the strength of the U.S. dollar contributed to reduced profits. Although 1982 sales were off throughout the industry, GAF increased its worldwide share of market for a number of specialty chemicals. GAF ranks very high among U.S. chemical companies in operating return on chemicals assets, and we expect to maintain that strength in coming years. New product development, though costly and often risky, means continued high return on investment long into the future. GAF, a pioneer in acetylene chemicals production in America, remains a world leader today in this highly specialized field of chemistry.

Capital expenditures were $[illegible]7.7 million in 1982 with projects carefully selected and targeted at increasing capacity for chemicals, modernizing our network of building materials plants, and necessary pollution control programs.

On March 22 the company announced it had received inquiries and would consider the possible sale of our building materials business, the merger of the entire corporation, or a possible leveraged buyout. We have had a great many discussions with interested corporations, private groups and investment bankers. Some have dropped out but others are continuing discussions. Some potential purchasers for the entire company have been deterred by the prospect of continued asbestos litigation, especially in view of the Manville petition for bankruptcy. We believe that their concern is exaggerated, since we have a great deal of insurance and GAF's legal costs and settlements in asbestos cases are paid by our insurance carriers. Nevertheless, the concern does exist.

The board of directors and management have as their main goal the maximizing of shareholder values, whether by improving sales and earnings or otherwise. That is why the redeployment programs of 1978 and 1981 were undertaken and successfully carried out, and why the company is willing to consider sale of part or all of the business if it is in the best interests of shareholders to do so.

ways to reduce debt, improve its cash position and reduce the cost of doing business. We further reduced corporate expense by cutting back on corporate staff and consolidating corporate functions, thereby reducing office space. We also froze executive salaries during 1982. In July the board of directors reduced quarterly dividends to five cents a share on common stock. The company signed an agreement in July with a 10-bank consortium for a $100 million revolving credit facility at the prime rate, replacing one of $225 million signed in February 1981 in connection with the successfully concluded restructuring program. As discussed in the financial section of this report, the new agreement, among other things, restricts the payment of cash dividends on GAF common stock. Preferred stock dividends are not affected.

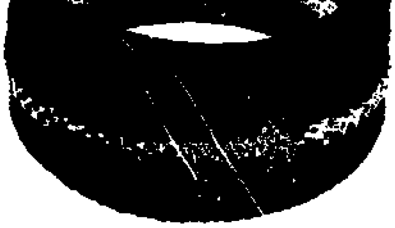
GAF is grateful for the loyal support of its shareholders and customers, and for the dedication and consistent high level of performance of our employees. Together we have come through the most challenging period in GAF's history and have emerged a stronger more streamlined company, determined to resume our long record of growth and achieve greater profitability in the years ahead.

By Order of the Board of Directors

Jesse Werner

Jesse Werner
Chairman of the Board

February 16, 1983



*organization that combines a streamlined*
*network with marketing and service faciliti*
*Australia, Brazil, Canada, Japan, Mexico,*
*East and Singapore.*

GAF is the cosmetic industry's leading supplier of such polymers as Gantrez® resins, used as film-formers in hair sprays and other hair grooming aids.

G-I_EPA0020763

$294.4 million in 1982, down slightly from 1981 sales of $300.8 million. Direct operating profits of $50.1 million were 11.5 percent less than 1981 profits of $56.6 million.

Domestic sales and earnings were affected mainly by a drop in sales volume during the fourth quarter as some of GAF's major customers reduced year-end inventories. Income also was affected by higher costs for energy, labor and raw materials during 1982 while prices remained at 1981 levels most of the year. Across-the-board price increases of from five to seven percent for GAF's acetylene chemicals were implemented on January 1, 1983.

Export sales of $77.6 million were slightly higher than in 1981, but profits declined $2.4 million because of the continued strength of the U.S. dollar abroad. Chemicals account for nearly all foreign sales now that the company's redeployment program is complete and unrelated businesses in Europe, Australia and Canada have been sold. Accordingly, organizational streamlining was begun in 1981 and the chemicals operations, domestic and international, were consolidated in 1982.

Specialty chemicals manufactured at GAF plants in the United States are sold throughout the world through GAF subsidiaries and distributors. Butanediol and tetrahydrofuran (THF) are also manufactured in Marl West Germany, and sold in Europe by GAF-Hüls Chemie, a joint venture between GAF and Chemische Werke Hüls, and by the GAF international sales force. In Belgium GAF manufactures a complete line of filter products for worldwide sale outside the United States. GAF's Canadian and Brazilian companies now also manufacture filters.

GAF is a leading producer of butanediol, an important intermediate chemical from which most of its family of acetylene derivatives evolves. THF, a solvent derived from butanediol, is used in vinyl and polyurethane products, for coating magnetic tapes and cellophanes and for making such products as shrink packaging and PVC cement

Gafite* PBT (polybutylene terephthalate) engineering thermoplastics, also based on butanediol, met increased demand as new formulations were developed for such diverse uses as electrical connectors, automobile fender extensions and ice cream dispensers. The newest of GAF's engineering resins, Gaflex* thermoplastic polyester elastomer (TPE), superior to rubber in many applications, was introduced in June. Gaflex resins combine heat resistance, load-bearing strength, plus solvent and fatigue resistance not found in non-polyester elastomers. GAF's Calvert City, Kentucky, plant manufactures PBT, and facilities there are being expanded for increased Gaflex TPE production.

more than $25 million, is predicted to grow at yearly rates approaching 20 percent.

Facilities also were expanded at Calvert City to meet growing demand for Polyclar* AT and Polyclar* 10, used mainly for clarification and stabilization of beverages, and for Polyplasdone XL* cross-linked polyvinylpolypyrrolidones (PVPP) used in pharmaceuticals. Polyplasdone XL cross-linked polymer (crospovidone NF) is a significant factor as a tablet disintegrant for the multivitamin industry. A second-generation Polyplasdone XL 10 with enhanced moisture resistance was introduced for use in coated tablets.

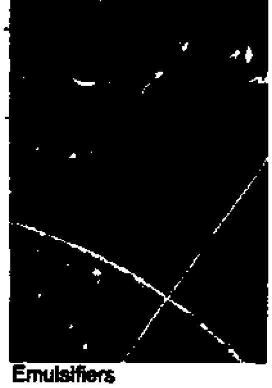
Capacity was nearly doubled at Linden, New Jersey, for Igepon* AC-78 surfactant for detergents, soaps and cosmetics. Sales have increased markedly since Igepon AC-78 surfactant was introduced in 1979. In Europe resale by GAF of surfactants and other specialty chemicals increased significantly.

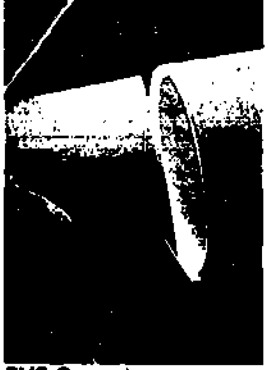
New hairsprays based on Gantrez* polymers were introduced by the cosmetics industry in 1982. GAF, the recognized leading supplier to this market, developed two new Gantrez resins during the year for this most active segment of the cosmetics marketplace. Another new product, Gantrez MS-955 resin, was introduced as a polymeric ingredient for denture adhesives.

The company also brought out new members of the Gafgard™ family of radiation curable coatings, first marketed in 1981. The new entries include Gafgard 280 coating specifically designed to increase flexibility in curtain coatings, and Gafgard 238 oligomer for use in coatings for such flexible substrates as plastics, textiles and leather. Gafgard ultraviolet-cured coatings are especially welcomed by the burgeoning home computer industry to protect cathode-ray tube display screens from being scratched. Gafgard 233 coating also is used on selector panels for television sets and to shield plastic lenses without degrading optical clarity.

**Mineral Granules**

Sales of roofing granules to outside customers improved over 1981, and GAF is in an excellent position to serve the housing industry as construction continues to increase in the eighties. The company mines a tough, non-porous basalt rock from its own quarries and produces various types of natural and colored ceramic-coated granules at four plants in the U.S. They are sold to virtually all other roofing manufacturers and used by GAF's building materials segment.


Emulsifiers


PVC Cements


Wetting Agents


Thermoplastics


Detergents

## GAF* Chemical Products

**High-pressure Acetylene Derivatives**

**Monomers**
2-Pyrol* monomer for nylon-like linear polymer, solvent and intermediate, solubilizer for drug-actives; V-Pyrol* comonomer and modifier for adhesives, coatings, fibers, etc. Intermediate; Alkyl vinyl ethers monomers for copolymers, intermediates.

**Vinylpyrrolidone Polymers**
Polyvinylpyrrolidone (PVP) for cosmetics, adhesives, detergents, coatings, paper, textile, specialty uses. Plasdone* pharmaceutical tablet binder and coating agent; Plasdone C excipient for injectables, blood plasma expander. Polyclar* AT stabilizer for beer, wine, vinegar, juice. Polyplasdone XL* tablet disintegrant for pharmaceuticals. Ganex* polymers for pigment dispersion, as protective colloids, cosmetic additives; PVP/VA copolymers, film formers for adhesives, cosmetics, etc.; Polectron* emulsion copolymer, a binder, stabilizer, opacifier for various uses. Galquat* copolymers for skin- and hair-care products.

**Vinyl Ether Polymers**
Gantrez* AN copolymers for adhesive, detergent, photographic, textile applications. [illegible] and LN for paints and other latex systems; Gantrez S resins for rapid cold-water solubility used in detergents. Gantrez* ES resins for cosmetics, coatings, pharmaceuticals. Gantrez* M resins for adhesives and coatings, a latex heat sensitizer and nonmigrating plasticizer.

**Intermediates and Solvents**
BLO* solvent for agricultural and lithographic applications; Butanediol, intermediate for thermoplastics, chain extender for urethanes; Butenediol, intermediate for pharmaceutical and agricultural chemical synthesis; Butynediol, agricultural intermediate, corrosion inhibitor; M-Pyrol* solvent for aromatic extraction of lube oils, high temperature plastics synthesis; Methylamines: reactive chemicals for pesticides, pharmaceuticals, detergents. N-Substituted pyrrolidones for formulating, purifying, or processing of coatings, drugs, dyes, plastics, etc.; Propargyl alcohol intermediate for agricultural and pharmaceutical chemical synthesis, corrosion inhibitor; Tetrahydrofuran for magnetic tape coatings, reaction synthesis, PVC pipe cements, vinyl coatings.

**Industrial Organic and Inorganic Chemicals**

**Surfactant Intermediates**
Nonylphenol, Dodecylphenol; Sodium Isethionate, Sarcosine, N Methyltaurine

**Carbonyl Iron Powders**
Microscopic-size spheres, containing as high as 99.5% metallic iron, used in VHF and UHF circuitry, transmitters, receivers, radar absorbing components, and in powder metallurgy.

**Iron Pentacarbonyl**
A technical grade, better than 99.5% pure, for use as starting material for chemically pure iron, antiknock agent for gasoline and diesel fuel, catalyst in hydrocarbon synthesis, etc.

**Specialty Chemicals**

**Antioxidant**
Uvi-Nox* primary antioxidant for polyolefins; monomer inhibitor

**Antistats for Plastics**
Gafac phosphate esters for PVC, polyolefins, polystyrene

**Biocides**
Biopal* iodophors for detergent-sanitizers

**Corrosion Inhibitors**
Butoxyne* 497 for acid pickling, electroplating, specialty applications. Katapone* VV-328 corrosion inhibitor for steel, copper, aluminum. Also for petroleum processing, drilling, acidizing

**Lubricants**
Antara* extreme-pressure additives for metalworking fluids

**Sequestrants**
Cheelox* sequestrants chelate trace metal impurities in textile processing, leather dyeing, paper processing, clarify liquid soaps and shampoos; stabilize rubber latices and agricultural chemical emulsions, sequester calcium, iron, copper, magnesium, tin, etc., in hard water and wet processing

**Textile Auxiliaries**
Diazopon SS-837 dispersant, Gaftex PT print paste thickener. Katapol VP-532 retarder for cationic dyes. Peregal dyeing, leveling, stripping assistants. Solidogen dye [illegible] agent for direct and developed dyes. Sorommine AT softener, lubricant and antistat for textiles, leather, paper

**Other Specialty Chemicals**
Blancol* dispersant and peptizing agent for pigments, clays, and other solids in paper, agricultural chemicals, latices; Galamide* CDD-518 foam stabilizer for liquid dishwashing products, drycleaning, heavy-duty detergents; Galgard* radiation-curable coatings, Gaftronic* electron-beam resist and processing chemicals for the manufacture of integrated circuits

**Surfactants**

**Nonionics**
Antarox* surfactants, low-foaming household and industrial detergents; Emulphogene* emulsifiers, foaming light- or heavy-duty detergents, latex stabilizers; Emulphor* dispersants, emulsifiers, antistats, textile lubricants; Igepal* surfactants for chemical and thermal stability in textile and paper processing, hydrocarbon and agricultural chemical emulsification, detergent compounding, emulsion polymerization, etc.

**Anionics**
Alipal high-foaming detergents for household products, static control, primary emulsification; Antara lubricants and corrosion inhibitors in oil- or water-based systems. Gafac detergents and emulsifiers with antistatic, lubricating, and dusting anticorrosion properties. Gafoam* AD air drilling surfactant for oil and gas wells. Igepon detergents, wetting agents and dispersants, both high- and low-foaming and compatible with soaps, used in textile and hard surface detergency and in formulating cosmetics and agricultural chemicals. Nekal* wetting agents for paper, textile, paint, ink applications

**Cationics**
Katapol* water-soluble emulsifiers, for mineral oils and agricultural chemicals, antiprecipitants and textile leveling agents; antistat and lubricant for wool and synthetic fiber processing

## GAF* Engineering Plastics

**Thermoplastic Polyesters**
Gafite; Gafite* LW, and Gaftuf* polybutylene terephthalate (PBT) molding compounds for automotive, mechanical, electrical/electronic, appliance, and business machine components

**Thermoplastic Elastomer**
Gaflex* thermoplastic polyester elastomer in blow-molding, extrusion, and injection-molding grades for bellows, hosing, tubing, sheeting, footwear, sporting goods, and automotive and electronic uses.

## GAF* Filter Systems*

A complete line of pressure-vessel filter systems, including Snap-Ring* filter bags, to meet the liquid filtration needs of most major industries, cartridges for liquid filtration.

## GAF* Mineral Products

Natural and ceramic-colored mineral granules in a variety of screen gradings and calibrated colors for roofing and other uses, inert fillers

## Services

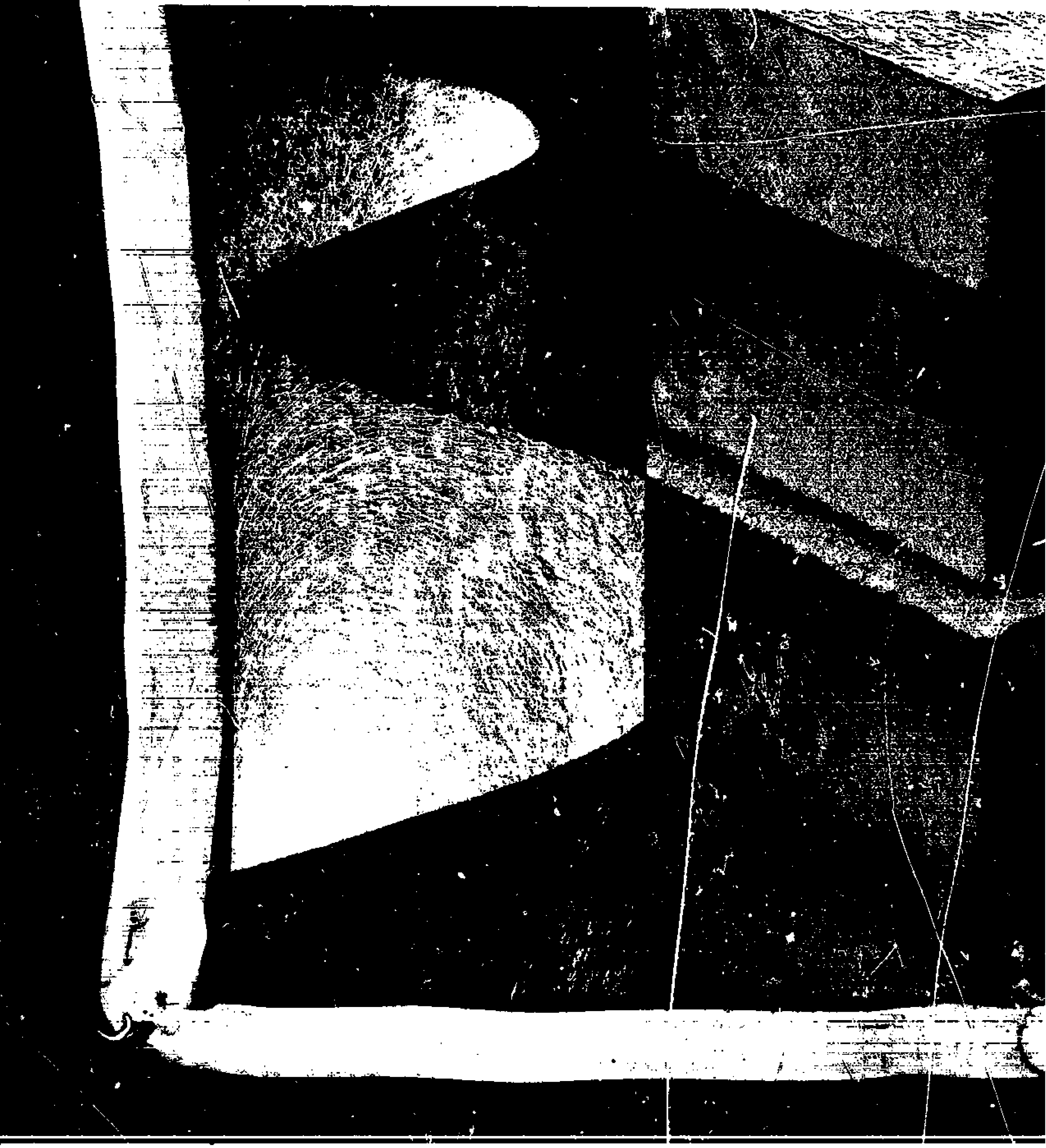
Custom manufacture of pharmaceutical, agricultural, and other specialty chemicals in developmental and commercial quantities

*Not available in the United States



G-I_EPA0020765

*improvement of 30 to 40 percent over 1982.*



GAF glass fiber mat is used as a base for GAF's asphalt roofing shingles and built-up roofing products.

GAF's line of products for the residential and commercial construction industries.

GAF produces asphalt roofing shingles from organic and glass substrates at plants from coast to coast.

Excludes Net Corporate Expenses

GAF produces asphalt

$371.7 million despite significant improvement in the second half. Interest rates for mortgages and home improvement loans eased slightly at mid-year but not enough to offset seasonally low activity in the housing market during the winter of 1981-82, the nadir of the home construction industry's worst recession in 36 years.

A direct operating loss of $26.3 million in 1982 compares with a 1981 loss of $38.6 million that included a $15.1 million write-off for the closing of three felt mills and accelerated deprecia-tion on three others. Contributing to the 1982 loss were prices held below 1981 levels by a constricted and highly competitive marketplace until mid-year when price increases became effective.

The company moved to reduce inventories early in 1982 by suspending production temporarily at 12 of GAF's 15 active building materials plants. (Two plants — Denver, Colorado, and Kansas City, Missouri — remain on indefinite furlough since September 1981.) Service to customers nationwide continued from inventories and from production at plants in Dallas, Texas; South Bound Brook, New Jersey and Tampa, Florida. By June all 12 plants were back in operation at reduced levels of production to begin serv-ing renewed demand as interest rates began to come down.

The company is offering a winter dating program with discounts or payment deferrals on asphalt roofing products purchased during the usually slow January-to-March period. This action is expected to help control inventories and permit uninterrupted production at plants in colder sec-tions of the country. Winter sales should also improve as customers seek deliveries ahead of April price increases

Although total sales volume was lower in 1982, sales of GAF Timberline* and Sentinel* glass mat shingles increased. Marketing efforts were intensified for these glass-based asphalt shin-gles produced from substrate made at the Chester, South Carolina, plant. The company maintains a balance of glass-based and organic felt based roofing products to meet various cus-tomer requirements. Glass-based roofing with its Underwriters Laboratories Class A fire rating has become a popular replacement for less flame-resistant materials, especially in the south and southwest

with new housing starts at their lowest level in decades the ratio was even higher in 1982. As interest rates decline, the release of pent-up demand for housing should improve building materials sales. Housing starts for 1983 are forecast by many economists at between 1.4 and 1.5 million, an improvement of 30 to 40 percent over 1982.

**GAF Super Systems**

Commercial construction also fell below 1981 levels during 1982, but GAF increased its mar share of built-up roofing appreciably with an ex panded line of glass-based products marketed nationwide as GAF Super Systems. GAF Sup Systems are a combination of new and proven roofing materials for both the re-roofing and ne construction markets. In May the company int duced Galglas* 75 heavyweight glass-based sheet for use on all types of hot-applied, built- roofs, with immediate good results and repeat sales. Gafglas flashing and new expansion joi covers received strong initial sales as these roofing accessories were put into nationwide distribution late in 1982. Another new Super Systems entry, Gafglas Mineral-Shield* membrane, was introduced later in the year. Response to date indicates that this new prod uct will also gain national acceptance in 1983.

Despite an industry-wide decline in sales of roofing insulation for commercial construction GAF Gaftemp* urethane roof deck insulation improved its share of market. A concerted effo to increase manufacturing efficiency and mod product formulation to reduce raw materials costs helped make this element of GAF Supe Systems more competitive. With the introduct of two major products in 1982 - - Gaftemp Mor ply and Gaftemp Isotherm/Perlite insulation - - the company now offers the most complete lir of polyurethane roofing insulation products in the industry. This, plus an aggressive technica service and contractor support program, is expected to position GAF favorably as the construction industry continues its recovery in the eighties

**Supply Centers**

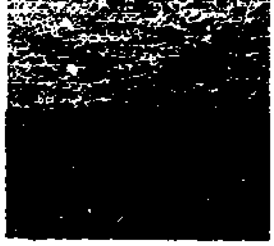
During 1982 GAF opened four additional build ing materials supply centers, bringing the tota to 13. The new centers were opened at Charlo and Greensboro, North Carolina, Richmond, Virginia and Wilkes Barre, Pennsylvania. Thes centers serve contractors regionally with vario lines of building materials, including GAF roof products. The supply center program realized dramatic sales increases for all products in 19 and helped augment sales in markets where GAF is not fully represented

Prepared Roofing

Self-sealing Shingles

Vent Stacks

Single-ply Roofing



Glass Fiber Laminate

**GAF® Building Products**

**Prepared Roofing**
**Asphalt Roofing Shingles**
Timberline® premium asphalt shingles, random butt design, earth-tone colors. Timberline® Class A glass fiber shingles for extra safety and long life. Sentinel® Class A glass fiber shingles, fire and wind resistant. Standard self-sealing shingles, rugged with classic square-tab design. Fire Guard® Class A heavyweight, twin-tab shingles. Sovereign® shingles, heavyweight, twin-tab design. Tile On® locking shingles, distinctive basket weave pattern. Nor easter strip shingles, no cut-outs, total double coverage. Suburban® Twin Tabs shingles in classic square butt style, sweeping appearance.

**Roll Roofing**
Smooth-surfaced roll roofing, mineral-surfaced roll roofing, combines utility and economy with fire-resisting qualities and attractive colors. Dubl-Coverage® mineralized roll roofing provides double-thick protection.

**Built-up Roofing Systems**
**Roofing Membranes**
Air Vent® asphalt saturated felts. Galglas® flashing. Universal base sheet, organic, coated both sides for use on asphalt roofs and over poured gypsum, wood fiber decks, roof insulation; a vapor retarder for above-deck insulation.

**Glass Ma[illegible]-based Products**
Galglas® [illegible] & [illegible] light weight ply sheets. Galglas asphalt-coated base and ply sheet. Galglas [illegible] mineral-surfaced cap sheet. Galglas Stratavent® perforated vent ply [illegible] glass-base felt. Galglas Stratavent® [illegible] for nailable decks, venting glass-base felt.

**Cements and Coatings**
Jetblak® Flashtite® cement, an asphalt plastic cement for built-up roofing flashing. Aluminum coating, reflective, for smooth-surface roofs, metal and masonry surfaces. Mica Weatherguard® coating and Weather Coat® asphalt [illegible]sion for smooth-surface roofs.

**Mineral-Shield® Built-up Roofing**
A time-proven roof approach [illegible] built-up roofing by [illegible] combining modern application techniques and specially formulated roofing products. Product [illegible] for Mineral-Shield roofing [illegible] [illegible] and aluminum mastic.

**Accessories**
[illegible]

**Single-ply Roofing**
Galply EP® single-ply roofing systems, including Galply EP EPDM membrane, neoprene flashing, bonding adhesives, seaming cements, and sealants for adhered, ballasted and mechanically fastened roofing applications.

**Insulation Products**
**Roof Insulation**
[illegible] roof insulation boards [illegible] cyanurate foam board [illegible] Factory Mutual Class I approval [illegible] [illegible] paramount [illegible] GAF roofing applications [illegible]

**Building Insulation**
Glass fiber batt for [illegible] construction.

**Services**
Building supply centers for distribution of GAF building materials and allied products.



G-I_EPA0020769

**Research and Development**

Research and development during 1982 resulted in new products and improved manufacturing processes for both the chemicals and building materials segments of the company.

Automation is being increased at GAF's roofing plants in an ongoing effort to maintain the company's reputation as the most advanced manufacturer in the industry. GAF's glass-based roofing passed the Underwriters Laboratories Class A fire rating test. This is a growing factor in consumer preference, particularly in the south and west. Research also continues in an effort to reduce the amount of asphalt needed during manufacture, a program undertaken with matching U.S. Department of Energy funds to help lessen the country's dependence on foreign petroleum.

To augment GAF's broad lines of roofing products the company introduced Gafply EP™ single-ply roofing system based on a synthetic rubber, EPDM. Single-ply roofing is becoming an increasingly significant segment of the commercial roofing market. New materials are in development to broaden this product line.

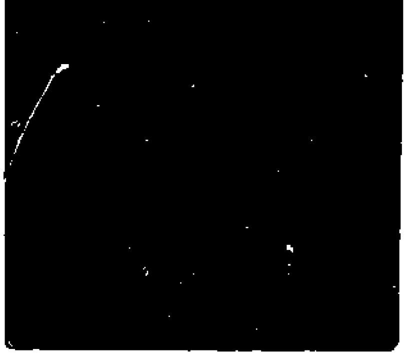
New specialty chemicals were introduced for the fast-growing electronics industry in 1982, including Gaftronic™ EB-46 electron beam resist that permits circuits 150 times thinner than a human hair to be etched on microelectronic chips. With resolution this fine, microchips can be etched to carry half-micron circuitry, more than double the capacity of present day microchips. This polymer-based chemical is coated on a metal-plated glass mask and exposed to electron beams, etching ultra-fine lines wherever the beam touches. The newly patented product is already in use by major manufacturers throughout the industry. During the year GAF doubled sales of M-Pyrol™ non-halogenated solvent for cleaning and stripping electronic parts, and introduced several new Gafgard™ coatings for computer components.

For the petroleum industry GAF research developed a unique foaming agent to help solve a costly problem in air-drilling operations. Gafoam™ AD wetting agent permits more economical recovery of oil and natural gas from high-brine locations. High salinity destroys the effectiveness of commonly used foaming agents. Gafoam AD wetting agent retains superior foaming properties in brine water even under extreme down-hole conditions. The foam entraps pulverized materials at the drill bit and moves them away from the cutting surface. This new biodegradable, non-toxic surfactant presents new opportunities for the air-drilling industry, and another major chemical specialty market for GAF.

Among other chemicals developed by GAF research and development in 1982 are an alkoxylated surfactant for dishwashing detergents, far superior in rinsibility to competitive products. Two new Biopal® formulations, Biopal NR-I and Biopal NR-II iodophors, have been registered with the Environmental Protection Agency as sanitizers for the food service industry. Both one-step disinfectants in specified strengths are effective against Hong Kong flu and Herpes Simplex viruses, and can be used against bacteria, pathological fungi and as tuberculocides.

The company also introduced a patented line of engineering resins called Gaflex® thermoplastic polyester elastomers (TPE) which can be extruded, injected and blow-molded into rubber-like components for the automotive and electronics industries. These and other examples of GAF's diverse lines of chemical products are discussed in other sections of this report.

electron beam resist, microcircuit chips can be made with more than double the capacity of present-day microchips. A coating of less than 1/50,000th of an inch of the polymer-based chemical on a metal-plated glass mask allows electrons to etch ultra-fine circuitry with more accurate detail than possible until now.



**Environmental**

The company continues to develop and upgrade modern environmental control systems at all of its locations around the country. Major pollution control projects were completed in 1982 at the Blue Ridge Summit, Pennsylvania, granules plant; the Calvert City, Kentucky, chemicals plant and the Millis, Massachusetts; Minneapolis, Minnesota and South Bound Brook, New Jersey, roofing plants. A program of reviews ensures that GAF facilities meet the highest standards for employee health and safety and comply with local, state and federal regulations concerning air and water pollution control and solid and liquid waste disposal.

**Personnel**

At year-end 1982 GAF employed approximately 4,500 people. During the year the company negotiated eight labor contracts, five of them for multi-year terms. Contract terms compare favorably with those reported by the U.S. Department of Labor. There were no strikes at any GAF locations, and good relations were maintained with union locals representing GAF plants.

GAF's former Salaried Employees Retirement Plan was replaced on January 1, 1983, by an improved retirement benefits program which eliminates 10-year vesting in favor of immediate vesting in company and individual contributions. A suit has been filed by a former employee in Federal District Court in New Jersey challenging the company's right to residual assets from the Salaried Employees Retirement Plan. The company believes the suit is without merit.

The new GAF Capital Accumulation Plan (GAFCAP) takes advantage of recent changes in federal tax laws to provide more up-to-date retirement benefits for employees. GAF contributes three percent of compensation to the plan for all participants up to age 65, and employees can make voluntary tax-deferred contributions up to 14 percent of their salaries through payroll deduction. The company also matches two-thirds of each eligible employee's contribution up to four percent of compensation.

Upon cancellation of the former plan all salaried employees were vested immediately in benefits accrued as of December 31, 1982. Employees could elect to have an annuity which will pay the same benefits as the old plan at retirement, choose to have these benefits rolled over into their new GAFCAP accounts, or accept lump sums which could be re-invested without tax penalty into Individual Retirement Accounts.

For retired and vested employees GAF contracted with a major insurance company to guarantee their retirement income.

**WNCN**

GAF Broadcasting Company's classical music radio station WNCN-FM increased sales and continued its profitability during the year. The station enhanced its signal by increasing the power of its transmitter atop the Empire State Building.

**Management**

In April Juliette M. Moran, vice chairman of the board of directors, retired after nearly 40 years as an employee of GAF. She joined the company as a chemist in 1943, was elected a vice president in 1967, senior vice president in 1971, and an executive vice president and board member in 1974. Miss Moran was re-elected a member of the board in 1982.

In December the company combined its chemicals and international operations as part of a streamlining begun the previous year. With chemicals accounting for nearly all GAF export sales since the completion of corporate restructuring, consolidation provides an effective new organization for expanding chemicals sales throughout the world. Carl R. Eckardt, formerly senior vice president for international operations, was named to head GAF's worldwide chemicals operation.

## Directors

**T. Roland Berner**[1,2,3,4,7]
Chairman of the Board
Curtiss-Wright Corporation

**Peter Bosshard**[1,2,3,4,5]
Executive Vice President
Credit Suisse

**Augustine R. Marusi**[5,6,7]
Formerly Chairman of the Board
Borden, Inc.

**Juliette M. Moran**[5,7]
Formerly Vice Chairman
GAF Corporation

**James T. Sherwin**[7]
Executive Vice President
GAF Corporation

**Richard F. Smith**[7]
Executive Vice President
GAF Corporation

Bristol-Myers Company

**Nolan B. Sommer**[1,2,3,4,5]
Formerly Senior Vice President
American Cyanamid Company

**Robert Spitzer**[5,6,7]
Chairman of the Board
Treadwell Corporation

Committees of the Board of Directors
1. Executive Committee
2. Executive Compensation Committee
3. Stock Option Committee
4. Stock Purchase Committee
5. Audit Committee
6. Nominating Committee
7. Retirement Committee

## Officers

**Jesse Werner**
Chairman of the Board

**James T. Sherwin**
Executive Vice President

**Richard F. Smith**
Executive Vice President

**Robert H. Beber**
Senior Vice President
General Counsel and
Secretary

**John A. Brennan**
Senior Vice President

**Carl R. Eckardt**
Senior Vice President

**Bernard L. Kapell**
Vice President and
Treasurer

**Raymond J. Lacroix**
Vice President and
Controller

**Donald W. LaPalme**
Vice President

**Abraham Lindenauer**
Vice President

**Robert F. McCarthy**
Vice President

**Raymond W. Smith**
Vice President

## Discussion and Analysis of Financial Condition and Results of Operations

considerably in the years 1981 and 1982 due in large part to the successful completion of the restructuring program announced at the end of 1980. The sales of six discontinued businesses, starting with pictorial products in July 1981, provided total cash proceeds of $189.5 million, giving the company the cash flows necessary to offset the adverse impact of the severe building industry recession and allowing the company to significantly reduce its outstanding debt. Additional cash inflows of $14.5 million will accrue to the company in future years as interest-bearing notes received from certain buyers are collected.

The relative impact of the restructuring program on the company's financial condition can be seen in the following chart.

| Millions of Dollars | July 1, 1981 | December 31, 1981 | December 31, 1982 |
|---|---|---|---|
| Total Long-term Debt | $327.5 | $215.6 | $157.1 |
| Notes Payable | 36.4 | 17.4 | 7.8 |
| Cash Short-term Investments | (26.4) | (13.3) | (12.4) |
| Net Debt | $337.5 | $219.7 | $152.5 |
| Ratio of Debt to Debt Plus Equity | 74.6% | 63.4% | 47.5% |

As fully explained in Note 7 of Notes to Consolidated Financial Statements, the asset mix of the pension funds was restructured in 1981 and a dedicated bond portfolio established to provide income sufficient to meet actuarially calculated payments to all retirees and vested former employees, including those of the discontinued businesses. Accordingly, the company reversed pension liability reserves established for employees of discontinued businesses in the aggregate amount of $43.8 million, less related taxes of $7.7 million. During September 1982 the Board of Directors of the company authorized the termination of the Salaried Employees Retirement Plan (Plan) effective December 31, 1982, and the creation of a new GAF Capital Accumulation Plan. After the required government approvals are obtained, the residual assets of the Plan, which approximate $35 million at December 31, 1982, will revert to the company. The $35 million was recognized as an extraordinary credit in the fourth quarter of 1982.

generated from lower net current asset balances were used to reduce bank borrowings. Inventories decreased 33% for the year as compared with 1981; of the total decrease, $47.6 million related to the building materials segment, a decrease of 52%. As a result of the high inventory levels in this segment at the end of 1981, a majority of the company's roofing plants were temporarily closed for part or all of the first quarter of 1982. These plants were reopened in the second quarter as a result of increased seasonal demand. The decrease for the year in Accounts Receivable-Other mainly represents the cash proceeds from the sale of the reprographics business, which was sold effective as of December 31, 1981.

During 1982 the company entered into a $100 million revolving credit facility, replacing an agreement signed in 1981 in connection with the restructuring program. Interest on the new agreement is at the prime rate or a rate based on the London Interbank Offer Rate. The agreement was tailored to meet the needs of GAF's continuing businesses, specialty chemicals and building materials. It includes restrictions on the payment of dividends on GAF common stock, capital expenditures, funded debt and sales of accounts and notes receivable, and requires the maintenance of minimum working capital and net worth. At December 31, 1982, $33.5 million of these funds were being utilized. The company also has additional short-term lines of credit.

Capital expenditures in 1982 were $17.7 million and are expected to be about $20 million in 1983. During 1982 expenditures were aimed at increasing capacity for chemicals, modernizing building materials plants, and necessary pollution control programs. At the end of the year the company had commitments of $7.3 million for approved capital expenditures. Commitments under various capital and operating lease obligations are detailed in Note 15 of Notes to Consolidated Financial Statements.

## Discussion and Analysis of Financial Condition and Results of Operations

pered in the three-year period of 1980-1982 by the depressed state of the building industry, which suffered its worst recession in 36 years. Consolidated sales decreased by nearly 9% during this period, and direct operating profits remained sharply lower than 1980 and prior despite a $5.6 million (32%) increase in 1982 as compared with 1981. Although raw materials costs eased somewhat in 1982, inflationary materials costs during this three-year period, together with the lower sales, eroded the consolidated gross margins from 22.5% in 1980 to 17.9% and 16.8% in 1981 and 1982, respectively.

Building materials sales fell by 11.5% in 1982 after decreases of 5% and 6% in the previous two years, primarily reflecting lower demand. An overall decline in volume in 1982 was partially offset by a sales price increase in the latter half of the year and generally lower raw materials costs. This business had been further hampered in 1981 by increased costs of petroleum-related products and other materials and an inability to pass along cost increases. Direct operating results, which reflected a 54% decrease in profits in 1980, showed losses of $38.6 million and $26.3 million in 1981 and 1982, respectively.

The results for the building materials business reflect the adverse economic conditions impacting the building industry. The period 1980-1982 has been a period of high interest rates which had an increasingly negative effect on the reroofing market, normally the major part of the company's business. In addition, new housing starts fell from 1980's already depressed level of 1.3 million units to 1.1 million units in both 1981 and 1982. As interest and mortgage rates decline, and with 1983 projected housing starts of 1.4 to 1.5 million, the prospects for improvement in this business in 1983 are positive.

Chemicals sales and profits decreased by 2.1% and 11.5%, respectively, in 1982 after showing increases of 5.8% and 8.8%, respectively, in 1981 as compared with 1980. Profits were off in 1982 mainly because of lower domestic unit volume of specialty chemicals as some of the company's major customers reduced inventory levels in the fourth quarter. While international sales increased slightly in 1982 after a 8.3% decrease in 1981, profits were adversely affected in both years because of the strength of the U.S. dollar.

continued to rank high among U.S. chemical companies in operating return on chemical assets. This segment has shown a return on assets of 25.5%, 26.2% and 27.3%, respectively, in the years 1982, 1981 and 1980. Operating profits have averaged over 18% of sales during the same period. It is expected that this segment will remain strong and continue its growth and high return on investment in the years ahead.

Other operating expenses, which increased $13.6 million (12%) in 1980 over 1979, decreased in 1981 by $2.6 million (2%) and decreased another $2.2 million (2%) in 1982. During 1982 the company continued its programs to reduce overhead costs through staff reductions and consolidation of functions. A salary freeze was also in effect during the year.

Net income in 1982 was favorably affected by proceeds from sales of tax benefits, by the settlement of two lawsuits with Eastman Kodak and by reversal of reserves related to the terminated Salaried Employees Retirement Plan.

For a review of the effects of inflation on the company's financial statements, see Supplementary Data-Financial Reporting and Changing Prices on page 30.



G-I_EPA0020774

# Consolidated Financial Information

| Millions of Dollars, Except Per Share Amounts<br>Year Ended December 31 | 1982 | 1981 | 1980 | 1979 | 1978 |
|---|---|---|---|---|---|
| **Net Customer Sales** | | | | | |
| Chemical | **$294.4** | $300.8 | $284.4 | $264.3 | $217.7 |
| Building Materials | **328.8** | 371.7 | 392.8 | 419.4 | 391.3 |
| Consolidated Sales | **623.2** | 672.5 | 677.2 | 683.7 | 609.0 |
| **Direct Operating Profit (Loss)** | | | | | |
| Chemical | **50.1** | 56.6 | 52.0 | 62.4 | 48.4 |
| Building Materials | **(26.3)** | (38.6) | 13.7 | 29.7 | 41.3 |
| Total | **23.8** | 18.0 | 65.7 | [illegible]2.1 | 89.7 |
| Income (Loss) from Continuing Operations | **12.2** | (28.2) | 10.3 | 25.8 | 28.1 |
| Primary Earnings (Loss) per Common Share—Continuing Operations | **.64** | (2.24) | .50 | 1.66 | 1.8[illegible] |
| Dividends per Common Share | **.50** | .8[illegible] | .77 | .68 | .64 |

The following Balance Sheet amounts pertaining to years before 1980 have not been re[illegible] to separately identify amounts applicable to discontinued segments. See Note 2 of No[illegible] to Consolidated Financial Statements.

| December 31 | 1982 | 1981 | 1980 | 1979 | 1978 |
|---|---|---|---|---|---|
| Current Assets | **$212.4** | $337.3 | $482.7 | $492.1 | $472.2 |
| Current Liabilities | **123.4** | 179.6 | 330.6 | 201.5 | 179.8 |
| Working Capital | **89.[illegible]** | 157.7 | 152.1 | 290.6 | 292.4 |
| Property, Plant and Equipment—Net | **[illegible]2.4** | 196.4 | 200.0 | 308.4 | 280.6 |
| Total Assets | **468.3** | 559.8 | 698.3 | 835.6 | 785.3 |
| Notes Payable | **7.8** | 17.4 | 58.0 | 17.6 | 23.6 |
| Total Long-term Debt | **157.1** | 215.6 | 193.5 | 206.4 | 196.8 |
| Shareholders' Equity | **181.9** | 134.7 | 122.3 | 369.0 | 351.7 |

**Market For Common Stock**

As of February 2, 1983, there were 44,091 holders on record of GAF's outstanding common stock. The following information pertains to the company's common stock, which is traded on the New York Stock Exchange.

**Cash Dividends per Common Share**

| | 1982 | 1981 |
|---|---|---|
| First Quarter | $ .20 | $ .20 |
| Second Quarter | .20 | .20 |
| Third Quarter | .05 | .20 |
| Fourth Quarter | .05 | .20 |

**Price Range of Common Stock**

| | 1982 High | 1982 Low | 1981 High | 1981 Low |
|---|---|---|---|---|
| First Quarter | **$15¼** | **$8⅝** | $14½ | $11¾ |
| Second Quarter | **14⅝** | **9¾** | 16⅜ | 12¼ |
| Third Quarter | **11⅞** | **9** | 15⅜ | 11¾ |
| Fourth Quarter | **14¾** | **9¼** | 15¼ | 12½ |

See Note 14 of Notes to Consolidated Financial Statements for a discussion on restrictions on the payment of dividends.

## Statements of Income and Retained Earnings

| | | | |
|---|---|---|---|
| **Net Sales** | **$623,236** | $672,514 | $677,216 |
| Costs and Expenses | | | |
| Cost of products sold | **518,766** | 551,893 | 524,897 |
| Distribution, selling and advertising | **69,764** | 73,260 | 71,614 |
| Research and development | **6,612** | 6,777 | 7,263 |
| General and administrative | **43,492** | 42,034 | 45,813 |
| Interest (Note 3) | **20,031** | 19,153 | 21,634 |
| Total Costs and Expenses | **658,665** | 693,117 | 671,221 |
| Other Income (Charges) | | | |
| Provision for plant shutdown costs (Note 4) | — | (15,080) | — |
| Other—Net (Note 6) | **39,441** | 2,644 | 3,082 |
| Total Other Income (Charges) | **39,441** | (12,436) | 3,082 |
| **Income (Loss) from Continuing Operations Before Income Tax Benefits** | **4,012** | (33,039) | 9,077 |
| **Income Tax Benefits** (Note 10) | **8,170** | 4,803 | 1,246 |
| **Income (Loss) from Continuing Operations** | **12,182** | (28,236) | 10,323 |
| **Discontinued Segments** (Note 2) | | | |
| Operating Income, net of income tax benefits of $466 | — | — | 441 |
| Estimated Income (Loss) from Dispositions, net of income taxes (benefits) of $2,703 in 1982, $15,707 in 1981 and ($10,460) in 1980 | **5,303** | 54,296 | (244,240 |
| **Income (Loss) from Discontinued Segments** | **5,303** | 54,296 | (243,799 |
| **Extraordinary Credits** (Notes 7 & 10) | **38,744** | — | — |
| **Net Income (Loss)** | **56,229** | 26,060 | (233,476) |
| **Retained Earnings, January 1** | **65,244** | 53,609 | 301,092 |
| Less cash dividends: | | | |
| Preferred stock ($1.20 per share) | **2,980** | 3,242 | 3,625 |
| Common stock (per share: 1982–$.50; 1981–$.80; 1980–$.77) | **7,152** | 11,183 | 10,382 |
| **Retained Earnings, December 31** | **$111,341** | $ 65,244 | $ 53,609 |
| **Earnings per Common Share** (Note 1) | | | |
| Primary | | | |
| Continuing | **$ .64** | $ (2.24) | $ .50 |
| Discontinued | **.37** | 3.86 | (18.07) |
| Extraordinary | **2.70** | — | — |
| Net Income (Loss) | **$ 3.71** | $ 1.62 | $ (17.57) |
| Fully Diluted | | | |
| Continuing | **$ .70** | $ (1.57) | * |
| Discontinued | **.30** | 3.07 | * |
| Extraordinary | **2.17** | — | — |
| Net Income | **$ 3.17** | $ 1.50 | * |
| **Weighted Average Number of Common and Common Equivalent Shares Outstanding** (In Thousands) | **14,338** | 14,078 | 13,497 |

Certain expenses for 1981 and 1980 have been reclassified to conform with the 1982 presentation.
*Figure omitted — not dilutive.
See Notes to Consolidated Financial Statements.



G-I_EPA0020776

# Statements of Changes in Financial Position

| | | | |
|---|---|---|---|
| Cash and Short-term Investments, beginning of year | $ 13,348 | $ 21,935 | $ 19,078 |
| Source (Use) of Funds: | | | |
| Income (Loss) from Continuing Operations | 12,182 | (28,236) | 10,323 |
| Charges (credits) not affecting funds: | | | |
| Depreciation | 20,717 | 20,728 | 17,897 |
| Deferred income taxes | (2,703) | (10,657) | (329) |
| Plant shutdown costs | — | 15,080 | — |
| Other | (8,040) | 6,437 | — |
| Total from continuing operations | 22,156 | 3,352 | 27,891 |
| Income (Loss) from Discontinued Segments | 5,303 | 54,296 | (243,799) |
| Charges (credits) not affecting funds | (5,303) | (54,296) | 262,456 |
| Total from discontinued segments | — | — | 18,657 |
| Extraordinary credits | 38,744 | — | — |
| (Credits) not affecting funds | (38,744) | — | — |
| Total from extraordinary credits | — | — | — |
| Total funds from operations | 22,156 | 3,352 | 46,548 |
| Cash proceeds from sales of discontinued businesses | 81,976 | 107,498 | 11,920 |
| Additions to property, plant and equipment | (17,713) | (27,579) | (48,154) |
| Other working capital items* | (23,170) | (54,619) | (145,986) |
| Other | 12,487 | (4,902) | 124,448** |
| Total source (use) before financing and investment activity | 75,736 | 23,750 | (11,224) |
| Financing and investment activity: | | | |
| Increase (decrease) in notes payable | (9,648) | (40,541) | 40,339 |
| Increases in long-term debt | 801 | 74,282 | 8,441 |
| Decreases in long-term debt | (58,794) | (52,250) | (21,294) |
| Cash dividends | (10,132) | (14,425) | (14,007) |
| Other | 1,066 | 597 | 602 |
| Total source (use) from financing and investment activity | (76,707) | (32,337) | 14,081 |
| Increase (decrease) in cash and short-term investments | (971) | (8,587) | 2,857 |
| **Cash and Short-term Investments, end of year** | **$ 12,377** | **$ 13,348** | **$ 21,935** |

| *Other working capital items: | 1982 | 1981 | 1980 |
|---|---|---|---|
| Accounts receivable—trade | $ 1,743 | $ 2,532 | $ 107,948 |
| Accounts receivable—other | (7,126) | (63,333) | 3,326 |
| Inventories | 47,413 | (44,096) | 160,588 |
| Prepaid expenses | 217 | (683) | 5,863 |
| Assets of discontinued segments | (3,242) | 128,325 | (403,620) |
| Accounts payable | (24,477) | (18,802) | (15,818) |
| Accrued liabilities | (37,531) | (54,814) | (4,834) |
| Income taxes payable | (167) | (3,748) | 561 |
| Net use | $(23,170) | $(54,619) | $(145,986) |

**Consists primarily of net property, plant and equipment transferred to assets of discontinued segments.

See Notes to Consolidated Financial Statements



G-I_EPA0020777

| | | |
|---|---|---|
| **Current Assets** | | |
| Cash | $ 9,113 | $ 10,385 |
| Short-term investments | 3,264 | 2,963 |
| Accounts receivable—trade, less allowance for doubtful accounts—1982, $3,034; 1981, $2,828 | 74,744 | 78,106 |
| Accounts receivable—other (Note 2) | 13,206 | 70,014 |
| Inventories—net | | |
| Finished goods | 48,346 | 87,169 |
| Work in process | 15,819 | 24,121 |
| Raw materials and supplies | 34,680 | 36,428 |
| Total Inventories | 98,845 | 147,718 |
| Prepaid expenses | 4,589 | 4,806 |
| Assets of discontinued segments, at estimated net realizable value (Note 2) | 8,652 | 23,272 |
| Total Current Assets | 212,413 | 337,264 |
| **Property, Plant and Equipment**, at cost (Note 15) | | |
| Land and land improvements | 16,330 | 15,941 |
| Buildings and building equipment | 60,452 | 60,780 |
| Machinery and equipment | 227,742 | 225,333 |
| Construction in progress | 9,217 | 11,091 |
| Total Property, Plant and Equipment | 313,741 | 313,145 |
| Less accumulated depreciation | 121,321 | 116,735 |
| Property, Plant and Equipment—Net | 192,420 | 196,410 |
| **Other Assets** (Notes 1, 2 & 7) | 63,499 | 26,086 |
| **Total Assets** | $468,332 | $559,760 |

See Notes to Consolidated Financial Statements.

| | | |
|---|---|---|
| **Current Liabilities** | | |
| Notes payable (Note 14) | $ 7,800 | $ 17,448 |
| Current portion of long-term debt (Note 14) | 34,587 | 21,909 |
| Accounts payable | 50,753 | 75,230 |
| Accrued liabilities (Note 2) | 28,834 | 63,406 |
| Income taxes payable | 1,392 | 1,559 |
| Total Current Liabilities | 123,366 | 179,552 |
| **Long-term Debt Less Current Portion** (Note 14) | 122,489 | 193,662 |
| **Other Liabilities** (Note 2) | 40,558 | 51,859 |
| **Total Liabilities** | 286,413 | 425,073 |
| **Commitments and Contingent Liabilities** (Note 15) | | |
| **Shareholders' Equity** (Notes 12, 13 & 14) | | |
| Preferred stock, $1 par value; authorized 6,000,000 shares; $1.20 convertible series issued—1982, 2,554,[illegible]57 shares; 1981, 2,611,784 shares; at assigned value of $1.25 per share (liquidation value 1982, $68,155) | 3,194 | 3,265 |
| Common stock $1 par value; authorized 25,000,000 shares; issued—1982, 14,459,004 shares; 1981, 14,387,721 shares | 14,459 | 14,388 |
| Additional paid-in capital | 55,008 | 54,360 |
| Retained earnings | 111,341 | 65,244 |
| Total | 184,002 | 137,257 |
| Less stock held in treasury, at cost: | | |
| Preferred—76,400 shares in 1982 and 1981 | 932 | 932 |
| Common—1982, 144,747 shares; 1981, 211,467 shares | 1,151 | 1,638 |
| **Total Shareholders' Equity** | 181,919 | 134,687 |
| **Total Liabilities and Shareholders' Equity** | $468,332 | $559,760 |

See Notes to Consolidated Financial Statements.



G-I_EPA0020779

The accounts of all subsidiaries of the company are included in the consolidated financial statements. All significant intercompany transactions and balances have been eliminated. A wholly owned captive insurance subsidiary and the 50% ownership of a foreign chemical manufacturing company are accounted for by the equity method.

**Short-term Investments**
Short-term investments are valued at cost, which approximates market.

**Inventories**
Inventories are valued at the lower of cost (principally average) or market.

**Property, Plant and Equipment, and Related Depreciation**
Depreciation is computed principally on the straight-line method based on the estimated economic lives of the assets.

Certain interest charges are capitalized as part of the cost of property, plant and equipment additions. See Note 3.

**Deferred Income Taxes**
Deferred income taxes arise from reporting certain income and expense items in the financial statements in periods different from those in which such amounts are reported for income tax purposes.

**Investment Tax Credits**
The company accounts for investment tax credits arising since January 1, 1971, as a reduction of the provision for United States income tax (the flow-through method). Investment tax credits which arose prior to that date were deferred and amortized over the estimated service lives of the related assets.

**Sale of Tax Benefits**
The company accounts for the proceeds from the sale of tax benefits (i.e., investment tax credits and depreciation deductions) pursuant to the leasing provisions of the Economic Recovery Tax Act of 1981 as pre-tax income. See Note 6.

**Retirement Plans**
The company and its subsidiaries have retirement plans covering substantially all employees. The company's policy is to accrue as expense an amount computed by the actuary and to fund at least the minimum amount required by ERISA See Note 7

**Earnings per Common Share**
Primary earnings per common share are computed by dividing income (loss), adjusted for preferred stock dividend requirements, by the weighted average number of shares of common

options to the extent they are dilutive.

Fully diluted earnings per common share are computed on the assumption (where the effec thereof would be dilutive) that convertible securities outstanding had been converted into shares of common stock Appropriate adjustments for dividends on preferred stock and interest on convertible notes (net of applicable income tax effect) are made to earnings applic ble to common stock for assumed conversion: The computation also assumes the exercise c all dilutive stock options.

**Cost in Excess of Net Assets Acquired**
Cost in excess of net assets acquired in the amount of $5.744,000 is included in Other Assets in the accompanying Consolidated Balance Sheets.

**2. Discontinued Segments**
In 1980 the company discontinued a number c businesses including its reprographics, photographic graphic arts products, pictorial produc resilient flooring and certain other businesses The pictorial products, graphic arts, resilient flooring, vinyl siding and paper and millboard businesses were sold in 1981. The reprographics business was sold on January 8, 198 effective as of December 31, 1981, which substantially completed the discontinuance program. A receivable of $63.9 million relating this sale is included in Accounts Receivable—Other at December 31, 1981. Long-term notes receivable of $12.6 million and $14.5 million relating to the sales of discontinued businesses are included in Other Assets at December 31, 1982 and 1981 respectively.

As of December 31, 1980, a provision of $254. million ($244.2 million after tax benefits of $10 million) was recorded and consisted of a reser for the loss on disposition of assets and a liability for anticipated phase-out costs. This reserve and liability were reevaluated in 1981 i connection with the sales of these businesses and determined to be more than needed to cover anticipated costs. The excess of $43.6 million (after taxes of $6.5 million) was restore to Estimated Income (Loss) from Dispositions discontinued segments. Estimated Income (Loss) from Dispositions for 1981 also include $10 7 million income (after taxes of $9.2 millio consisting primarily of pension reserves, relati to 1977 discontinuances, no longer required. Estimated Income (Loss) from Dispositions for 1982, net of taxes, includes the reversal of a $7 million reserve (less a related tax benefit of $2 million) for royalties established in 1977, which is no longer required as a result of the dismiss of an Eastman Kodak patent suit against the company



G-I_EPA0020780

| Millions of Dollars | Reserve for Loss On Disposition of Assets | Liability for Phase-Out Cost | Total |
|---|---|---|---|
| Provision recorded in 1980 | $127.0 | $127.7 | $254.7 |
| Activity during 1980 | (1.0) | (6.0) | (7.0) |
| Balance, December 31, 1980 | 126.0 | 121.7 | 247.7 |
| Activity during 1981 | (114.3) | (30.3) | (144.6) |
| Adjustment of balance | 6.6 | (56.7) | (50.1) |
| Balance, December 31, 1981 | 18.3 | 34.7 | 53.0 |
| Activity during 1982 | (5.6) | (14.1) | (19.7) |
| Balance, December 31, 1982 | $ 12.7 | $ 20.6 | $ 33.3 |

At December 31, 1982, the current portion of the liability for phase-out costs is $2.3 million and is included in Accrued Liabilities; the noncurrent portion of $18.3 million is included in Other Liabilities. Comparable current and long-term amounts at December 31, 1981 were $15.1 million and $19.6 million, respectively.

Operating Income of the discontinued segments for 1980 shows the results prior to the effective dates of the discontinuances. Operating results subsequent to the effective dates of the discontinuances have been charged to the liability for phase-out costs. Sales in 1980 applicable to discontinued businesses were $553.4 million prior to the dates at which they were reported as discontinued.

Assets of discontinued segments are summarized below:

| December 31 (Millions of Dollars) | 1982 | 1981 |
|---|---|---|
| Accounts Receivable — Net | $ [illegible] | $15.8 |
| Inventories | [illegible] | [illegible] |
| Property, Plant & Equipment — Net | [illegible] | 16.6 |
| Other | [illegible] | [illegible] |
| Total Assets | [illegible] | [illegible] |
| Less reserve for loss on disposition of assets | [illegible] | 18.3 |
| Total Assets at Estimated Net Realizable Value | $ [illegible] | $[illegible] |

## 3. Interest Expense

Interest expense for continuing operations for the years ended December 31, 1982, 1981 and 1980 was as follows:

| Thousands of Dollars For the Year | 1982 | 1981 | 1980 |
|---|---|---|---|
| Total interest | [illegible] | $[illegible] | [illegible] |
| Less: Amount capitalized | [illegible] | [illegible] | [illegible] |
| Interest expense | [illegible] | [illegible] | $[illegible] |

## 4. Plant Shutdown Costs

The company in December 1981 provided $15.1 million for certain felt mill shutdowns, primarily for the write-off of related buildings and equipment in the building materials segment.

continuing operations are included in Other Income (Charges) as follows:

| Thousands of Dollars For the Year | 1982 | 1981 | 198[illegible] |
|---|---|---|---|
| Pre-tax | | | |
| Translation | $ 872 | $ 1,772 | $ 1,8[illegible] |
| Forward exchange contracts | 253 | 545 | [illegible] |
| Payable/receivable | (847) | (1,[illegible]) | [illegible] |
| Total | $ [illegible] | $ [illegible] | $ [illegible] |
| After-tax | | | |
| Translation | $ 872 | $ 1,772 | $ 1,8[illegible] |
| Forward exchange contracts | 253 | 386 | [illegible] |
| Payable/receivable | (993) | (511) | (6[illegible]) |
| Total | $ 132 | $ 1,647 | $ 1,58[illegible] |

The company, as required, will adopt the Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation," effective as of January 1, 1983. If the company had adopted this Statement in 1982, earnings for the year would not have been affected significantly.

## 6. Other Income (Charges)

A summary of Other Income (Charges) — Other for the years ended December 31, 1982, 1981 and 1980 follows:

| Thousands of Dollars For the Year | 1982 | 1981 | 198[illegible] |
|---|---|---|---|
| Cash settlement of antitrust lawsuit with Eastman Kodak | $ 9,500 | $ | $ |
| Sales of tax benefits | 6,454 | 1,965 | |
| Reversal of pension reserves (see Note 7) | 7,000 | | |
| Income (loss) from equity method investments | 5,504 | (600) | (96[illegible]) |
| Interest income | 5,560 | 2,894 | 53[illegible] |
| Adjustment of [illegible] reserves | (3,483) | 200 | |
| Foreign exchange gains (see Note 5) | 278 | 1,165 | 1,38[illegible] |
| Other — net | [illegible] | (3,475) | 2,1[illegible] |
| Total | $30,441 | $2,144 | $2,08[illegible] |

## 7. Retirement Plans

In June 1981 the company announced a change in the asset mix of the employee pension funds as a result of the restructuring program. A dedicated bond portfolio, with an assumed interest rate of return of 12% which approximates the yield to maturity on the portfolio, was established to provide income sufficient to meet the actuarially calculated payments to all retirees and vested former employees, including those of the discontinued businesses. At the same time, the company adopted a 1% increase in the assumed rate of return on plan assets and salary increases to [illegible] and [illegible], respectively, for active plan participants. Those changes eliminated the unfunded prior service cost, resulted in an overfunded position for the value of vested benefits and generated an actuarial gain to be amortized over ten years. The effect was a decrease of $7,500,000, without tax benefit, in the loss from continuing operations for 1981 or $.53 Primary — Continuing Earnings per Common Share.

included amounts for future pension costs for which the remaining aggregate liability was $43,842,000 at December 31, 1980. The company is no longer obligated to fund any benefits relating thereto and, accordingly, the $43,842,000 balance, less related taxes of $7,747,000, was restored to Discontinued Segments -- Estimated Income (Loss) from Dispositions during 1981, or $2.56 Primary -- Discontinued Earnings per Common Share.

During September 1982 the Board of Directors of the company authorized the termination of its Salaried Employees Retirement Plan (Plan), a defined benefit plan, effective December 31, 1982, and the creation of a new GAF Capital Accumulation Plan, a defined contribution plan, for eligible salaried employees effective January 1, 1983. Approvals of the termination were requested from the Internal Revenue Service (IRS) and from the Pension Benefit Guaranty Corporation (PBGC) during November 1982. An annuity contract approximating $100 million, representing the present value of the accumulated benefits of all Plan participants and their beneficiaries, was purchased from a major insurance company by the Plan's Trust Fund in November 1982.

After receipt of the required approvals from the PBGC and the IRS, distributions will be made to all Plan participants and their beneficiaries on the basis of their individual payment options selected, and the residual assets, which approximate $35 million at December 31, 1982, will revert to the company. The $35 million of residual assets has been recognized as an extraordinary credit, as to which no tax effect is required because of the availability of loss carryforwards for income tax purposes, in the Consolidated Statement of Income for the year 1982, or $2.44 Primary -- Extraordinary Earnings per Common Share, and is included in Other Assets in the Consolidated Balance Sheet at December 31, 1982.

The retirement plans for hourly employees and for Texas City facility employees continue in force for eligible employees.

Pension cost for continuing operations was $873,000 in 1982, $2,347,000 in 1981 and $9,806,000 in 1980.

Results of operations for 1982 include a $7,000,000 credit in Other Income (Charges), representing the reversal of reserves related to the Salaried Employees Retirement Plan which are no longer required as a consequence of the company's September 1982 decision to terminate such retirement plan (see Note 6).

defined benefit plans is presented below

| Thousands of Dollars | 1982 | 1981* | 1980 |
|---|---|---|---|
| Actuarial present value of accumulated plan benefits: | | | |
| Vested | $179,582 | $167,245 | $221,181 |
| Non Vested | 7,057 | 6,784 | 10,303 |
| Total | $186,639 | $174,029 | $231,484 |
| Plan assets available for benefits | $206,584 | $217,395 | $173,061 |
| Assumed rate of return | 7½% | 7% | 6% |
| Plan valuation date | 1/1/82 | 1/1/81 | 1/1/80 |

*Certain amounts for 1981 and 1980 have been restated to exclude from accumulated plan benefits and plan assets available for benefits those allocated annuity contracts held by insurance companies, in accordance with the provisions of the Statement of Financial Accounting Standards No. 35 Accounting and Reporting by Defined Benefit Pension Plans.

## 8. Schedule of Business Segments*

| Millions of Dollars<br>Year Ended December 31 | 1982 | 1981 | 1980 |
|---|---|---|---|
| Sales | | | |
| Chemical | $310.5 | $325.4 | $308.2 |
| Less Intersegment Sales** | 16.1 | 24.6 | 23.8 |
| Net Chemical | 294.4 | 300.8 | 284.4 |
| Building Materials | 328.8 | 371.7 | 392.8 |
| Consolidated Sales | $623.2 | $672.5 | $677.2 |
| Direct Operating Profit (Loss) | | | |
| Chemical | $ 50.1 | $ 56.6 | $ 52.0 |
| Building Materials | (26.3) | (38.6) | 13.7 |
| Total | 23.8 | 18.0 | 65.7 |
| Corporate: | | | |
| Operating Expenses | (30.2) | (32.2) | (37.9) |
| Interest | (20.0) | (19.2) | (21.6) |
| Other Income -- Net | 30.4 | 0.4 | 2.9 |
| Net Corporate Expenses | (19.8) | (51.0) | (56.6) |
| Income (Loss) from Continuing Operations Before Income Tax Benefits | $ 4.0 | $ (33.0) | $ 9.1 |
| Identifiable Assets | | | |
| Chemical | $196.4 | $200.6 | $190.4 |
| Building Materials | 176.8 | 222.4 | 200.5 |
| Corporate | 86.4 | 113.5 | 41.7 |
| Assets of Discontinued Segments | 8.7 | 23.3 | 265.7 |
| Total Assets | $468.3 | $559.8 | $698.3 |
| Additions to Property, Plant and Equipment | | | |
| Chemical | $ 7.7 | $ 12.2 | $ 21.9 |
| Building Materials | 9.1 | 14.0 | 23.9 |
| Corporate | 0.9 | 1.4 | 2.4 |
| Total | $ 17.7 | $ 27.6 | $ 48.2 |
| Depreciation | | | |
| Chemical | $ 10.6 | $ 9.8 | $ 8.6 |
| Building Materials | 8.2 | 9.4 | 7.8 |
| Corporate | 1.9 | 1.5 | 1.5 |
| Total | $ 20.7 | $ 20.7 | $ 17.9 |

*Statement of Income information is presented for continuing operations.

**Intersegment sales are recorded at the same prices charged to unaffiliated customers. Intersegment sales by the building materials segment were negligible.

| Millions of Dollars For the Year | United States | Western Europe | Other | Eliminations and Other | Total Consolidated |
|---|---|---|---|---|---|
| **1982** | | | | | |
| Sales | $583.8 | $ 57.4 | $ 17.5 | $(35.5) | $623.2 |
| Less intergeographic sales** | 26.4 | 9.1 | — | (35.5) | — |
| Sales to Unaffiliated Customers | 557.4 | 48.3 | 17.5 | — | 623.2 |
| Direct Operating Profit | 13.4 | 6.9 | 3.5 | — | 23.8 |
| Net Corporate Expenses | | | | | (19.8) |
| Income from Continuing Operations Before Income Tax Benefits | | | | | 4.0 |
| Identifiable Assets | 426.7 | 22.4 | 10.5 | 8.7*** | 468.3 |
| **1981** | | | | | |
| Sales | $635.3 | $ 48.0 | $ 16.4 | $(27.2) | $672.5 |
| Less intergeographic sales** | 26.4 | 0.8 | — | (27.2) | — |
| Sales to Unaffiliated Customers | 608.9 | 47.2 | 16.4 | — | 672.5 |
| Direct Operating Profit | 6.1 | 8.8 | 3.1 | — | 18.0 |
| Net Corporate Expenses | | | | | (51.0) |
| Income (Loss) from Continuing Operations Before Income Tax Benefits | | | | | (33.0) |
| Identifiable Assets | 502.5 | 24.2 | 9.8 | 23.3*** | 559.8 |
| **1980** | | | | | |
| Sales | $636.7 | $ 67.5 | $ 15.0 | $(42.0) | $677.2 |
| Less intergeographic sales** | 29.6 | 12.4 | — | (42.0) | — |
| Sales to Unaffiliated Customers | 607.1 | 55.1 | 15.0 | — | 677.2 |
| Direct Operating Profit | 51.0 | 12.5 | 2.2 | — | 65.7 |
| Net Corporate Expenses | | | | | (56.6) |
| Income from Continuing Operations Before Income Tax Benefits | | | | | 9.1 |
| Identifiable Assets | 396.0 | 28.8 | 7.8 | 265.7*** | 698.3 |

*Geographic information is presented for continuing operations for information pertaining to the Statements of Income.
**Intergeographic sales are recorded at prices, above cost, as negotiated between the operating units.
***Assets of discontinued segments at estimated net realizable value.

## 10. Income Taxes

Income (Loss) from Continuing Operations Before Income Tax Benefits consists of domestic and foreign income (loss) as follows:

| Thousands of Dollars For the Year | 1982 | 1981 | 1980 |
|---|---|---|---|
| Domestic | $(4,985) | $(44,053) | $(5,572) |
| Foreign | 8,997 | 11,014 | 14,649 |
| Income (Loss) from Continuing Operations Before Income Tax Benefits | $ 4,012 | $(33,039) | $ 9,077 |

The income tax benefit (provision) on continuing operations consists of the following:

| Thousands of Dollars For the Year | 1982 | 1981 | 1980 |
|---|---|---|---|
| United States—current | $10,700 | $ — | $7,245 |
| United States—deferred | 2,703 | 10,657 | (4,590) |
| United States investment tax credits | — | — | 5,111 |
| Foreign—current | (1,489) | (5,554) | (6,395) |
| Foreign—charge in lieu of taxes | (3,744) | — | — |
| State | — | (300) | (125) |
| Income Tax Benefits | $ [illegible] | $ 4,803 | $1,2[illegible] |

Income tax benefits (provision) on continuing operations for the years 1982, 1981, and 1980 were different from the amounts computed by applying the United States Federal statutory income tax rate to income (loss) before taxes. The reasons for these differences are as follows:

| Thousands of Dollars For the Year | 1982 | 1981 | 1980 |
|---|---|---|---|
| Tax benefit (provision) at statutory rate | $(1,846) | $15,198 | $(4,175) |
| Adjustments: | | | |
| Operating loss carryback (carryforward) | 8,458 | (10,660) | — |
| United States investment tax credits | — | — | 5,111 |
| Domestic International Sales Corporation and depletion allowances | [illegible] | 871 | 941 |
| Foreign operations | [illegible] | (385) | 74 |
| Other—net | (478) | (221) | (705) |
| Income Tax Benefits | $ 8,170 | $ 4,803 | $1,246 |



G-I_EPA0020783

operations is summarized as follows:

| Thousands of Dollars For the Year | 1982 | 1981 | 1980 |
|---|---|---|---|
| Reversal of tax effect of certain 1977 reserves | $ 2.703 | $ 9.147 | $ - |
| Tax depreciation over amount reported in Consolidated Statements of Income | — | — | (2.908) |
| Interest expense capitalized | — | — | (1,223) |
| Foreign exchange translation | — | — | (129) |
| Other—net | — | 1.510 | (330) |
| Total | $ 2.703 | $10.657 | $(4.590) |

For income tax reporting purposes, operating loss carryforwards of approximately $100 million are available at December 31, 1982, of which $90 million is available for offset against future United States taxable income through 1996. The remainder is applicable to consolidated subsidiaries located principally in Western Europe and will expire at various dates through 1992. In addition, United States investment tax credit carryforwards of approximately $9 million are available as of December 31. 1982 for offset against future United States tax liabilities through 1995.

Provision has not been made for United States income taxes on unremitted earnings of $16.236.000 of consolidated foreign subsidiaries as of December 31, 1982. since it is management's intention to reinvest such earnings indefinitely. Any United States taxes payable on foreign earnings which may be remitted in the future are expected to be substantially reduced by the combined effects of a net operating loss carryforward and foreign tax credits. United States income taxes have not been provided on the unremitted earnings of $14.220,000 of the Domestic International Sales Corporation subsidiary through December 31, 1982. since the company intends to postpone indefinitely the remittance of such earnings.

Extraordinary credits for 1982 include $3.744.000, representing the income tax benefit from the utilization of foreign operating loss carryforwards. Future utilization of the operating loss carryforwards for United States income tax purposes may require the restoration of applicable deferred income tax reserves.

### 11. Supplementary Financial Information

The following expenses of continuing operations are included in the Consolidated Statements of Income.

| Thousands of Dollars For the Year | 1982 | 1981 | 1980 |
|---|---|---|---|
| Maintenance and repairs | $41.233 | $45.504 | $42.436 |
| Rentals—operating leases | 6.586 | 8.120 | 13.443 |



on which are cumulative, is convertible at any time into common stock at the rate of 1¼ share of common stock for each share of preferred. The company may redeem the preferred stock at $27.50 per share.

Transactions in common stock held in treasury were as follows:

| Thousands of Dollars | 1982 | 1981 | 19 |
|---|---|---|---|
| Balance, January 1 | $1.638 | $1.958 | $2.6 |
| Repurchase of 65.559 shares in 1982, 105.100 shares in 1981 and 10.600 shares in 1980 pursuant to the restricted stock purchase plan | 385 | 618 | |
| Issuance from treasury of 132.279 shares in 1982, 130.520 shares in 1981 and 97.500 shares in 1980 (in connection with sales under the stock option plan and the restricted stock purchase plan) | (872) | (938) | ( |
| Balance, December 31 | $1.151 | $1.638 | $1.9 |

As a result of the above issuance of treasury shares, additional paid-in capital increased $580.000 and $276,000 in 1982 and 1981, respectively, and decreased $123.000 in 1980.

The shares of common stock reserved for issuance at December 31, 1982 and 1981 were as follows:

| Reserved for | 1982 | 19 |
|---|---|---|
| Conversion of $1.20 convertible preferred stock | 3.193.446 | 3.264 7 |
| Conversion of convertible subordinated notes | 364.444 | 415.5 |
| Exercise under stock option and purchase plans | 757.099 | 824.5 |
| Total | 4.314.989 | 4.504.8 |

During 1982. 57.027 shares of preferred stock, assigned value of $71.284, were converted into 71.283 shares of common stock; during 1981, 456 417 shares of preferred stock, assigned value of $570.521, were converted into 570.51 shares of common stock; and during 1980, 37.476 shares of preferred stock, assigned value of $46.845, were converted into 46,843 shares of common stock.

### 13. Stock Option and Stock Purchase Plans

The company's stock option plans provide for the granting of options to key employees to purchase common stock of the company at not less than 100% of the fair market value at the date of grant. Under the terms of the 1975 nonqualified plan, options for 800.000 shares of common stock may be granted during a ten-year period ending February 11. 1985. Options granted to date are exercisable one year after grant and expire after 10 years. The plan provides for stock appreciation rights, wherein an option holder may request "surrender" of the option in

G-I_EPA0020784

and market prices on the date of surrender. The requested surrender of an option may be granted or denied at the discretion of the Stock Option Committee of the Board of Directors. The plan also provides for limited stock appreciation rights permitting the option holder to surrender exercisable options in the event of a tender or exchange offer for the corporation's common stock made by someone other than the corporation.

Authority to grant options under the 1965 qualified plan expired on March 31, 1975. Options granted under this plan expired five years from the date of grant.

Transactions affecting options under these plans are as follows:

| | Number of Shares | Average Option Price |
|---|---|---|
| Outstanding January 1, 1980 | 618,670 | $10.48 |
| Granted | 132,000 | 11.50 |
| Exercised | (22,500) | 10.28 |
| Terminated | (115,500) | 9.87 |
| Outstanding December 31, 1980 | 612,670 | 10.82 |
| Granted | 99,000 | 14.58 |
| Exercised | (76,020) | 10.64 |
| Terminated | (61,500) | 12.27 |
| Outstanding December 31, 1981 | 574,150 | 11.39 |
| Granted | -- | -- |
| Exercised | (133,000) | 10.96 |
| Terminated | (36,500) | 12.38 |
| Outstanding December 31, 1982 | 404,650 | 11.44 |

Of the total options outstanding at December 31, 1982, 1981 and 1980, 404,650; 488,650 and 480,670, respectively, were exercisable. Options for 118,500, 82,000 and 119,500 shares were available for grant at December 31, 1982, 1981 and 1980, respectively.

Under the provisions of the company's 1969 restricted and unrestricted stock purchase plan 650,000 shares of common stock were authorized for sale to key employees. The plan currently provides that restricted and unrestricted shares may be sold at prices which are not less than 50% and 80%, respectively, of the closing market price preceding the date of grant. Under certain conditions, the company has the right to repurchase restricted shares of common stock at the original selling price.

The excess of quoted market value at the date of grant over the aggregate sales price for restricted shares sold is amortized by charges to income over the restricted period. As a result of these charges, additional paid-in capital has been increased by $68,000, $108,000 and $199,000 in 1982, 1981 and 1980, respectively. The balance to be amortized through 1989 amounted to $435,000, $902,000 and $1,183,000 at December 31, 1982, 1981 and 1980, respectively.

years 1980-1982 is as follows:

| Thousands of Dollars | 1982 | 1981 | 1980 |
|---|---|---|---|
| As of December 31 | | | |
| Balance outstanding | $ 7,800 | $17,448 | $ 57,989 |
| Average interest rate | 10.0% | 16.5% | 19.2% |
| For the year | | | |
| Average short-term debt outstanding | $13,368 | $3[illegible] | $ 95,[illegible] |
| Maximum short-term debt outstanding at any month-end | $17,954 | $83,687 | $130,731 |
| Average interest rate | 13.5% | 16.2% | 12.7% |

The average amount outstanding for the year was computed by dividing the total of the month-end outstanding principal balances by 12. The average interest rate for the year was computed using the weighted average interest rate on outstanding balances at each month-end.

At December 31, 1982, GAF had unused short-term lines of credit aggregating approximately $21.4 million (in addition to the revolving credit facility discussed below). These lines of credit are maintained with banks on terms, generally renewable, expiring on various dates. Borrowings generally bear interest at or near the prime commercial lending rate or a rate based on the London Interbank Offer Rate.

Long-term debt at December 31, 1982 and 1981 was as follows:

| Thousands of Dollars | 1982 | 1981 |
|---|---|---|
| 9[illegible]% senior notes due March 31, 1987 with annual scheduled principal repayments | $ [illegible]2,800 | $ 53,700 |
| Revolving credit agreement (see below) | 33,500 | 72,500 |
| 8[illegible]% senior notes due January 15, 1992 with annual scheduled principal repayments | 30,000 | 32,100 |
| Tax-exempt industrial revenue bonds which bear interest at rates of 4% to 7[illegible]% and mature at various dates to 2004. Certain assets are liened as collateral hereto | 21,053 | 22,927 |
| Obligations under capital leases (see Note 15) | 11,906 | 13,241 |
| 5% convertible subordinated notes due April 1, 1994, with optional annual repayments beginning April 1, 1990 | 8,200 | 8,200 |
| Other notes which bear various interest rates and mature at dates to 1993 | 4,951 | 6,770 |
| 5[illegible]% sinking fund debentures due December 1, 1987, with annual sinking fund payments of $2,500 due on each December 1 | 4,666* | 4,066* |
| 5[illegible]% convertible subordinated notes | -- | 1,467 |
| Total | 157,076 | 215,571 |
| Less current portion | 34,587 | 21,909 |
| Long-term debt, less current portion | $122,489 | $193,662 |

*Amount is net of $17,834 and $20,3[illegible] held in treasury at December 31, 1982 and 1981, respectively, which may be used to satisfy future sinking fund requirements.

at a conversion price of $22.50 per share (subject to antidilution adjustments in specified circumstances).

The company during 1982 entered into a $100 million revolving credit facility with a consortium of ten banks, effective as of June 30, 1982 and terminating January 31, 1984. Interest on the funds is at the prime rate or a rate based on the London Interbank Offer Rate. The new agreement replaces one signed in February 1981 in connection with the restructuring program which was substantially completed in 1982. Under the agreement, a commitment fee of ½ of 1% per annum is charged on the daily average unused portion of the commitments, and a facility fee of ½ of 1% per annum is charged on the commitments, whether used or unused.

The new agreement includes restrictions on the payment of cash dividends on GAF common stock (dividend covenants in other loan agreements are less restrictive), generally based upon fifty percent (50%) of the net income (excluding certain special items) subsequent to the second quarter 1982 less all cash dividends paid since June 30, 1982. At December 31, 1982, available income, as defined, was in a deficit position restricting the payment of cash dividends on common stock. Consent to payment of the February 20, 1983 dividend was obtained from the requisite number of lenders. Until available income, as defined, becomes sufficient, cash dividends on GAF common stock cannot be paid without further consent. Dividends on GAF preferred stock and stock dividends on common stock are not restricted. The agreement and other loan agreements contain provisions which, among other things, require the maintenance of minimum working capital and net worth and limit the amount of debt.

Cash requirements to meet maturing long-term debt obligations over the next five years are presented below. Debt of $33.5 million incurred under the revolving credit agreement has been included in the 1984 amount based upon its term.

| | |
|---|---|
| 1983 | $34,587,000 |
| 1984 | $45,034,000 |
| 1985 | $10,302,000 |
| 1986 | $10,028,000 |
| 1987 | $12,757,000 |

headquarters in Wayne, N.J., which is accounted for as a capital lease. This lease is included in Property, Plant and Equipment -- Net at December 31, 1982 and 1981 in the amount of $8,427,000 and $8,867,000, respectively. The present value of future net minimum lease payments is reflected as long-term debt (See Note 14). The amortization expense associated with this capital lease is included in depreciation expense. The company also has operating leases for transportation and data processing equipment and for other buildings.

Future minimum lease payments for properties used in continuing operations which are held under long-term noncancelable leases as of December 31, 1982 are as follows:

| Thousands of Dollars Minimum Payments | Capital Leases | Operating Leases |
|---|---|---|
| 1983 | $ 1,731 | $ 4,909 |
| 1984 | 1,669 | 1,253 |
| 1985 | 1,606 | 360 |
| 1986 | 1,544 | 44 |
| 1987 | 1,481 | 34 |
| Later Years | 1,376 | 21 |
| Total minimum payments | 19,407 | $ 6,621 |
| Less interest included above | 7,501 | |
| Present value of net minimum lease payments | $11,906 | |

The company had commitments of approximately $7,292,000 at December 31, 1982, for the acquisition of property, plant and equipment for its continuing operations.

At December 31, 1982 there were various pending lawsuits and claims against the company relating to matters arising from its business including approximately 12,000 cases involving claims relating to the exposure to asbestos or asbestos-containing product sold by the company. For the asbestos cases, the company is being defended and indemnified by its insurance carriers, subject to a reservation of rights. In the opinion of management, the ultimate disposition of such matters will not have a material adverse effect on the company's consolidated financial position.

Haskins+Sells

One World Trade Center
New York, NY 10048

To The Shareholders and Board of Directors of
GAF Corporation:

We have examined the consolidated balance sheets of GAF Corporation and its consolidated subsidiaries as of December 31, 1982 and 1981 and the related consolidated statements of income and retained earnings and of changes in financial position for each of the three years in the period ended December 31, 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the financial position of the companies at December 31, 1982 and 1981 and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles consistently applied.

Deloitte Haskins & Sells

February 15, 1983

**Data (Unaudited)**

Accounting Standards No. 33, "Financial Reporting and Changing Prices," the following supplementary information is presented to reflect the estimated impact of inflation on the company's income from continuing operations. The company's historical cost financial data have been adjusted for the effects of general inflation on inventories and property, plant and equipment (constant dollar basis) and for the effects of changes in specific prices on those assets (current cost basis). As a result, the impact on net income only reflects adjustments to depreciation expense and cost of products sold. Sales and other costs and expenses, including income taxes, have not been adjusted.

The management of GAF cautions the reader in interpreting this supplementary data due to the required use of numerous assumptions and estimates in preparing the information. This data is therefore only an indicator of the effects of inflation and does not provide a precise measurement.

**Constant Dollar Information**
Constant dollar accounting is a method of reporting financial data in dollars having an equal (i.e. constant) general purchasing power. As required, this information has been compiled by adjusting the historical costs of inventories and property, plant and equipment for changes in the Consumer Price Index for All Urban Consumers.

**Current Cost Information**
The current cost method adjusts historical costs of the company's inventories and property, plant and equipment to reflect changes in specific prices (current cost) of producing those same inventories or replacing the assets at the balance sheet date. Plant and equipment current costs were estimated by adjusting historical costs by externally generated industrial price indexes. Inventory costs were developed using current manufacturing costs. Inventory costs included in the Cost of Products Sold were determined on average current costs during the year. Under both methods, depreciation expense was adjusted based on the restated asset values using the same estimated useful lives and depreciation rates used in the primary financial statements

adjusted earnings under both the constant dol lar and current cost methods are lower than th results from continuing operations reported in the primary financial statements. However, it should be noted that the guidelines establishe by Statement No. 33 specify that the gain from the decline in purchasing power of net moneta liabilities held during the year ($6.1 million) ma not be aggregated with the adjusted earnings. This gain arises because during 1982, the company had more liabilities which were fixed in dollars to be repaid than it had assets simila fixed in dollars to be received. While this unrealized gain does not represent dollars which w be received in the future, it does represent an important hedge against inflation, as this net monetary liability position will be paid in dollar which have a lower purchasing power than the dollars originally received in return for the obligations.

**Consolidated Statement of Income from Continuing Operations Adjusted for Changing Pric (Unaudited)**

| Thousands of Dollars For the Year Ended December 31, 1982 | As Reported in the Primary Statements (Historical Cost) | Adjusted for General Inflation (Constant Dollar) | Adjus (Chan in Spec Pri (Cur C |
|---|---|---|---|
| Net Sales | $623.236 | $623.236 | $623. |
| Cost of Products Sold* | 501.511 | 507.095 | 511. |
| Depreciation | 20,717 | 32.432 | 34. |
| Other Expenses | 76.965 | 76.965 | 76. |
| Interest | 20.031 | 20.031 | 20. |
| Income Tax Benefits | (8.170) | (8.170) | (8. |
| | 611.054 | 628.353 | 634. |
| Income (Loss) from Continuing Operations | $ 12,182 | $ (5.117) | $ (10. |
| Purchasing power gain on net monetary liabilities held during the year | | $ 6.141 | $ 6. |
| Increase in specific prices (current cost) of inventories and property, plant and equipment held during the year** | | | $ 20. |
| Effect of increase in the general price level | | | 16. |
| Increase in specific prices over (under) effect of increase in the general price level | | | $ 3. |

*Excludes $17.255 depreciation expense included in Cost Products Sold in the primary financial statements

**The estimated current cost of Property, Plant and Equipmen Net and Inventories was $281.701 and $100.522, respective at December 31, 1982

| Thousands of Dollars, Except Per Share Amounts | 1982 | 1981 | 1980 | 1979 | 1978 |
|---|---|---|---|---|---|
| Net Sales | $623,236 | $713,739 | $793,261 | $909,255 | $901,003 |
| Historical cost information adjusted for general inflation: | | | | | |
| Income (Loss) from continuing operations | (5,117) | (54,624) | (14,529) | 9,677 | |
| Income (Loss) per common share | (.56) | (4.12) | (1.08) | .72 | |
| Net assets at year-end | 273,151 | 243,252 | 257,833 | 664,203 | |
| Current cost information: | | | | | |
| Income (Loss) from continuing operations | (10,977) | (51,733) | (17,089) | 4,884 | |
| Income (Loss) per common share | (.97) | (3.92) | (1.26) | .36 | |
| Increase in specific prices of inventory and property over (under) effect of increase in the general price level | 3,905 | (25,988) | 1,128 | 18,080 | |
| Net assets at year-end | 269,794 | 246,074 | 265,443 | 717,422 | |
| Other data, adjusted for general inflation: | | | | | |
| Purchasing power gain on net monetary liabilities held during the year | 6,141 | 23,066 | 32,264 | 29,532 | |
| Dividends per common share | .50 | .85 | .90 | .90 | .94 |
| Year-end market price per common share | 13.84 | 14.76 | 14.96 | 12.74 | 16.92 |
| Average Consumer Price Index | 289.1 | 272.4 | 246.8 | 217.4 | 195.4 |

## Quarterly Financial Data

| | 1982 by Quarter | | | | 1981 by Quarter | | | |
|---|---|---|---|---|---|---|---|---|
| Millions of Dollars | First | Second | Third | Fourth | First | Second | Third | Fourth |
| Net Sales | $139.5 | $163.4 | $179.2 | $141.1 | $176.7 | $174.1 | $177.5 | $144.2 |
| Cost of Products Sold | 119.6 | 136.6 | 139.8 | 122.8 | 139.5 | 135.0 | 149.4 | 128.0 |
| Gross Profit | $ 19.9 | $ 26.8 | $ 39.4 | $ 18.3 | $ 37.2 | $ 39.1 | $ 28.1 | $ 16.2 |
| Income (Loss) from Continuing Operations Before Income (Taxes) Benefits | $ (4.8) | $ 4.2 | $ 12.9 | $ (8.3) | $ 4.4 | $ 6.0 | $ (3.8) | $(39.6) |
| Income (Taxes) Benefits | 1.1 | 4.7 | 2.9 | (0.5) | (1.3) | (1.7) | (1.3) | 9.1 |
| Income (Loss) from Continuing Operations | (3.7) | 8.9 | 15.8 | (8.8) | 3.1 | 4.3 | (5.1) | (30.5) |
| Income from Discontinued Segments, Net of Taxes | 5.3 | — | — | — | 0.8 | 0.6 | 19.3 | 33.6 |
| Extraordinary Credits | 1.0 | 1.2 | 0.9 | 35.6 | — | — | — | — |
| Net Income | $ 2.6 | $ 10.1 | $ 16.7 | $ 26.8 | $ 3.9 | $ 4.9 | $ 14.2 | $ 3.1 |
| Earnings per Common Share:* (Dollars) | | | | | | | | |
| Primary | | | | | | | | |
| Continuing | $ (.32) | $ .57 | $ 1.06 | $ (.66) | $ .16 | $ .25 | $ (.41) | $(2.19) |
| Discontinued | .37 | — | — | — | .06 | .04 | 1.35 | 2.35 |
| Extraordinary | .08 | .08 | .06 | 2.47 | — | — | — | — |
| Net Income | $ .13 | $ .65 | $ 1.12 | $ 1.81 | $ .22 | $ .29 | $ .94 | $ .16 |
| Fully Diluted | | | | | | | | |
| Continuing | ** | $ .50 | $ .90 | $ (.49) | ** | $ .25 | $ (.27) | ** |
| Discontinued | — | — | — | — | ** | .03 | 1.08 | — |
| Extraordinary | — | .07 | .05 | 1.99 | — | — | — | — |
| Net Income | ** | $ .57 | $ .95 | $ 1.50 | ** | $ .28 | $ .81 | ** |

*In accordance with the provisions of APB Opinion No. 15, earnings per share are calculated separately for each quarter and the annual period. Accordingly, annual earnings per share will not necessarily equal the total of the interim periods.
**Figure omitted—not dilutive.

140 West 51 Street
New York, NY 10020
(212) 621-5000

**Domestic**
GAF Corporation's plants research laboratories, sales offices and distribution centers are located throughout the U.S.A.

### Chemicals

**Alabama**
Huntsville
**California**
Irvine
**Illinois**
Lombard
**Kentucky**
Calvert City
**Maryland**
Hagerstown
**Missouri**
Annapolis
**New Jersey**
Bound Brook
Linden
**North Carolina**
Charlotte
**Ohio**
Cincinnati
**Pennsylvania**
Blue Ridge Summit
King of Prussia
**Texas**
Arlington
Seadrift
Texas City
**Wisconsin**
Pembine

### Building Materials

**Alabama**
Mobile
**California**
Fontana
**Colorado**
Denver*
**Delaware**
Wilmington
**Florida**
Tampa
**Georgia**
Savannah
**Illinois**
Joliet
**Indiana**
Mount Vernon
**Kansas**
Leawood
**Maryland**
Baltimore
Beltsville
**Massachusetts**
Millis
**Minnesota**
Minneapolis
**Missouri**
Kansas City
St. Louis
**New Jersey**
Gloucester City
South Bound Brook
**New York**
Buffalo
Syracuse
**North Carolina**
Charlotte
Greensboro
**Pennsylvania**
Erie
King of Prussia
Wilkes Barre
**South Carolina**
Chester
**Tennessee**
Memphis
**Texas**
Dallas
**Virginia**
Norfolk
Richmond
Springfield

*Sold February 25, 1983

### Corporate

**New Jersey**
Wayne
**New York**
New York

**Domestic Subsidiaries**
GAF Broadcasting Company, Inc.
New York, NY

GAF Export Corporation
New York, NY
Carolina, Puerto Rico

GAF Hawaii Inc.
Honolulu, Hawaii

GAF International Corporation
New York, NY

**International**
GAF Corporation's major marketing and service facilities are located throughout the world.

**Australia**
Melbourne
Sydney
**Austria**
Vienna
**Belgium**
Sint-Niklaas
**Brazil**
São Paulo
**Canada**
Mississauga
**Denmark**
Virum
**Finland**
Helsinki
**France**
Paris
**Great Britain**
Esher
Manchester
**Greece**
Athens
**Israel**
Tel Aviv
**Italy**
Milan
**Japan**
Tokyo
**Mexico**
Mexico City
**The Netherlands**
Schiedam
**New Zealand**
Auckland
**Norway**
Oslo
**Singapore**
Singapore
**South Africa**
Sandton
**Spain**
Barcelona
**Sweden**
Stockholm
**Switzerland**
Zug
**West Germany**
Frechen
**Affiliate:**
**GAF/Hüls Chemie GmbH**
Marl, West Germany

End-